

ECONOMIC FINANCIAL ISSUES CONFERENCE  
24 October 1986  
New York City

Welcome - conference important to American intelligence community - very pleased you could give us your time today.

Idea for this conference reaches back many months - our analysts in working on vital economic issues find themselves more and more frequently examining many different threads of a single emerging pattern - such is the case in the global financial arena. Our analytical directorate has kept careful track of such evolving issues as the Third World debt crisis, the rise and fall of oil prices, worldwide financial deregulation, the development of new financial instruments, the explosion of trading in them, and many others.

What was missing was a look at the synergy among these trends, and what this implies for the security of the United States and our Western allies, so I asked our people to do some papers reflecting and describing this.

It became clear to me that the importance of these unprecedented financial developments called for us to seek high-level counsel from those with practical experience to consider the phenomenon and its elements. Hence, this meeting today.

There are other critical areas in which a similar set of interrelated developments need to be evaluated. We have put in similarly intensive work on three of them and plan to hold conferences similar to this one.

One involves the impact of the computer and telecommunications area on Soviet society, its economy and its strategic and military thrust, and our national interests in that development. It seems quite clear, in coping with the computer and telecommunications future, the Soviets face what to them has to be a traumatic dilemma. To compete effectively in the world of tomorrow, they will have to make great use of what the computer and modern telecommunications

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can deliver. Yet the degree to which they do that will force them to relax the political grip on their people and will create the kind of pressures for spreading information they have always resisted. Should we foster this process in the hope of opening up their society or should we resist it to maintain our technological and economic lead. Perhaps we can't influence it that much, but we need to understand the dilemma and think how it might work to our advantage. So, on the 14th of November we're having about a dozen people deeply versed in Soviet economy and Soviet society meet for a couple of days to talk about the implications and opportunities for us in the potential impact of computer and telecommunications revolution on Soviet society.

This conference will be important to our thinking about the Soviet economy and the Soviet military and their ability to keep the pace in the strategic area as well as to our evaluation of the internal political pressures on the Soviet leadership.

Still another important area involves the economic and financial developments in the so-called Third World. This will play a major role in the strategic competition with the Soviets in which the countryside in Latin America, Asia and Africa may turn out to be more important than the missile test ranges in the Soviet Union. We have seen the Soviets convert themselves from a continental power to a worldwide power by taking over half a dozen countries, converting them into surrogates and threatening other countries all over the world. They do this through destabilization, subversion and military support through insurgencies. How can we more effectively counter and preempt this expansionism with Western technology, skills, capital and markets?

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We are in the throes of a major research effort to identify the strategically significant Third World countries in which the availability and application of Western technology, capital, managerial skill, and markets can make an economic difference and foreclose the opportunity for communist exploitation. For example, we have had one of our national laboratories do an in depth study of the energy resources--geothermal, shale, even bagass--in Central America. In these and other countries around the world, the development of indigenous energy sources can transform their economies and their ability to resist Marxist subversion. We have studied or are in the process of studying some 20-odd countries in this way to identify the resources and other assets to which Western capabilities can be applied to advantage. Those of you who are interested will be invited to this conference to review and work with those findings.

Also, we have just completed a major study of Arctic oil and the technological, market and finance factors which will influence this race for the future. We are also engaged in a study and the development of a National Security Directive on what the Soviets could do to muck up the international financial system by tampering with the technical mechanisms or by using misinformation or other techniques specifically designed to damage or disrupt the very taut international financial process. Because the system is so delicate and has expanded so rapidly, we may be more vulnerable than ever to Soviet targeting. We have under way a study identifying and evaluating the vulnerability of the international financial mechanism to Soviet manipulation and disruption and analyzing what opportunities the emerging Soviet hard currency problem may create for our interests.

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The Soviets, with a huge market, large resources, global reach and central direction, can throw a lot of economic and financial weight around. Ten years from now, Japan will have a trillion dollars in reserves, half a trillion by 1990. It's mostly in paper today. That's more financial weight than the OPEC nations had at their peak. Are we playing into their hands in pushing the dollar down? It certainly hasn't whittled down our trade deficit and it will certainly make it easier for the Japanese to convert that paper into businesses and other hard assets in America.

The subject we will address today is vital in its own right, as well as highly relevant to these other dimensions I have just touched upon. We will be talking about the globalization of the global economy. As I was thinking about these remarks, I was reminded that when I was Chairman of the SEC I made a speech in Milan in 1972 about the globalization of the equity markets. So, globalization is really nothing new. What is new is the acceleration of the tempo and the worldwide expanse in which this is happening today as the number of transactions the international system can handle is expanded by several orders of magnitude:

- as the flow of price information is speeded, along with the

sophistication and reaction time of investors and other participants in the marketplace;

- as the number and diversity of the financial instruments traded in our markets grows so rapidly;

- as smaller financial players gain greater access;

- as deregulation further unleashes the free market;

- as new financial mechanisms are devised every week;

- and, finally, as the Soviet Union moves more aggressively to exploit the Western financial markets.

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We see the Soviets seeking membership in the INF and a large range of other international organizations, even to join Interpol. I could go on and on, but I came here to learn and listen rather than to talk and pontificate.

In considering these issues today, I encourage you to be wide-ranging in your ideas and thought--no matter how far-flung they may be. I think this is a rare opportunity for all of us to engage in educated speculation on the future and possibilities of this ongoing revolution in the world's financial structure. As every experienced intelligence officer knows, it is just as important to consider the possibilities as it is the probabilities.

We are looking to you for guidance as to where we at the CIA--who are responsible for warning U.S. policymakers of possible dangers down the road and alerting them to possible opportunities for policy action--where we should be concentrating our intelligence collection and analytical efforts.

To this end, we will keep the discussion entirely off-the-record to help us stretch our imaginations, stimulate interaction, and broaden the scope of the discussion--even if it means detouring from the suggested agenda.

Again, thank you all very much for coming, and I hope you benefit as much from this session as I'm sure I will. Now let me hand the chair over to Dave Cohen, Director of Global Issues in the Intelligence Directorate at the Agency, to give us a roadmap of today's agenda.